

SOCIAL COST OF CARBON

Background

EPA and other federal agencies use the social cost of carbon (SC-CO₂) to estimate the climate benefits of rulemakings. The SC-CO₂ is an estimate of the economic damages associated with a small increase in carbon dioxide (CO₂) emissions, conventionally one metric ton, in a given year. This dollar figure also represents the value of damages avoided for a small emission reduction (i.e. the benefit of a CO₂ reduction).

The SC-CO₂ is meant to be a comprehensive estimate of climate change damages and includes, among other things, changes in net agricultural productivity, human health, property damages from increased flood risk and changes in energy system costs, such as reduced costs for heating and increased costs for air conditioning. However, it does not currently include all important damages. The IPCC Fifth Assessment report observed that SC-CO₂ estimates omit various impacts that would likely increase damages. The models used to develop SC-CO₂ estimates do not currently include all of the important physical, ecological, and economic impacts of climate change recognized in the climate change literature because of a lack of precise information on the nature of damages and because the science incorporated into these models naturally lags behind the most recent research. Nonetheless, the SC-CO₂ is a useful measure to assess the benefits of CO₂ reductions.

The timing of the emission release (or reduction) is key to estimation of the SC-CO₂, which is based on a present value calculation. The integrated assessment models first estimate damages occurring after the emission release and into the future, often as far out as the year 2300. The models then discount the value of those damages over the entire time span back to present value to arrive at the SC-CO₂. For example, the SC-CO₂ for the year 2020 represents the present value of climate change damages that occur between the years 2020 and 2300 (assuming 2300 is the final year of the model run); these damages are associated with the release of one ton of carbon dioxide in the year 2020. The SC-CO₂ will vary based on the year of emissions for multiple reasons. In model runs where the last year is fixed (e.g., 2300), the time span covered in the present value calculation will be smaller for later emission years—the SC-CO₂ in 2050 will include 40 fewer years of damages than the 2010 SC-CO₂ estimates. This modeling choice—selection of a fixed end year—will place downward pressure on the SC-CO₂ estimates for later emission years. Alternatively, the SC-CO₂ should increase over time because future emissions are expected to produce larger incremental damages as physical and economic systems become more stressed in response to greater levels of climatic change.

One of the most important factors influencing SC-CO₂ estimates is the discount rate. A large portion of climate change damages are expected to occur many decades into the future and the present value of those damages (the value at present of damages that occur in the future) is

highly dependent on the discount rate. To understand the effect that the discount rate has on present value calculations, consider the following example. Let's say that you have been promised that in 50 years you will receive \$1 billion. In "present value" terms, that sum of money is worth \$291 million today with a 2.5 percent discount rate. In other words, if you invested \$291 million today at 2.5 percent and let it compound, it would be worth \$1 billion in 50 years. A higher discount rate of 3 percent would decrease the value today to \$228 million, and the value would be even lower—\$87 million-- with a 5 percent rate. This effect is even more pronounced when looking at the present value of damages further out in time. The value of \$1 billion in 100 years is \$85 million, \$52 million, and \$8 million, for discount rates of 2.5 percent, 3 percent, and 5 percent, respectively. Similarly, the selection of a 2.5 percent discount rate would result in higher SC-CO₂ estimates than would the selection of 3 and 5 percent rates, all else equal.

Process Used to Develop the Social Cost of Carbon

An interagency working group was convened by the Council of Economic Advisers and the Office of Management and Budget in 2009-2010 to design an SC-CO₂ modeling exercise and develop estimates for use in rulemakings. The interagency group was comprised of scientific and economic experts from the White House and federal agencies, including: Council on Environmental Quality, National Economic Council, Office of Energy and Climate Change, Office of Science and Technology Policy, EPA, and the Departments of Agriculture, Commerce, Energy, Transportation, and Treasury. The interagency group identified a variety of assumptions, which EPA then used to estimate the SC-CO₂ using three integrated assessment models, which each combine climate processes, economic growth, and interactions between the two in a single modeling framework.

Social Cost of Carbon Values

The 2009-2010 interagency group recommended a set of four SC-CO₂ estimates for use in regulatory analyses. The first three values are based on the average SC-CO₂ from three integrated assessment models, at discount rates of 5, 3, and 2.5 percent. SC-CO₂ estimates based on several discount rates are included because the literature shows that the SC-CO₂ is highly sensitive to the discount rate and because no consensus exists on the appropriate rate to use for analyses spanning multiple generations. The fourth value is the 95th percentile of the SC-CO₂ from all three models at a 3 percent discount rate, and is intended to represent the potential for higher-than-average damages. See the 2010 SC-CO₂ [Technical Support Document](#) (PDF, 51pp, 854K) for a complete discussion about the methodology and resulting estimates.

The interagency group updated these estimates, using new versions of each integrated assessment model and published them in May 2013. The 2013 interagency process did not revisit the 2009-2010 interagency modeling decisions (e.g., with regard to the discount rate, reference case socioeconomic and emission scenarios or equilibrium climate sensitivity). Rather, improvements in the way damages are modeled are confined to those that have been incorporated into the latest versions of the models by the developers themselves and as used in

the peer-reviewed literature. The 2010 SC-CO₂ [Technical Support Document](#) (PDF, 51pp, 854K) provides a complete discussion of the methods used to develop these estimates and the current SC-CO₂ TSD presents and discusses the 2013 update (including minor technical corrections to the estimates published in July 2015).¹

The four SC-CO₂ estimates are: \$16, \$51, \$76, and \$150 per metric ton of CO₂ emissions in the year 2025 (2014 dollars).²

The table below summarizes the four SC-CO₂ estimates in certain years.

Social Cost of CO₂, 2015-2050^a (in 2014 Dollars per metric ton CO₂)

Source: Technical Support Document: Technical Update of the Social Cost of Carbon for Regulatory Impact Analysis Under Executive Order 12866 (May 2013, Revised July 2015)

Year	Discount Rate and Statistic			
	5% Average	3% Average	2.5% Average	3% 95 th percentile
2015	\$12	\$40	\$62	\$117
2020	\$13	\$47	\$69	\$140
2025	\$16	\$51	\$76	\$150
2030	\$18	\$56	\$81	\$170
2035	\$20	\$61	\$87	\$190
2040	\$23	\$67	\$93	\$200
2045	\$26	\$71	\$99	\$220
2050	\$29	\$77	\$106	\$240

^a The SC-CO₂ values are dollar-year and emissions-year specific and have been rounded to two significant digits. The 2007\$ estimates were adjusted to 2014\$ using GDP implicit price deflator (108.289) from the National Income and Product Accounts Tables, Table 1.1.9.

¹ Both the 2010 SC-CO₂ TSD and the current TSD are available at: <https://www.whitehouse.gov/omb/oira/social-cost-of-carbon>.

² The current version of the SCC TSD is available at: <https://www.whitehouse.gov/sites/default/files/omb/inforeg/scc-tds-final-july-2015.pdf>. The TSDs present SC-CO₂ in \$2007. The estimates were adjusted to 2012\$ using the GDP Implicit Price Deflator. Also available at: <http://www.gpo.gov/fdsys/pkg/ECONI-2013-02/pdf/ECONI-2013-02-Pg3.pdf>. The SC-CO₂ values have been rounded to two significant digits. Unrounded numbers from the 2013 SCC TSD were adjusted to 2012\$ and used to calculate the CO₂ benefits.

Examples of Applications to Rulemakings

EPA has used the SC-CO₂ to analyze the carbon dioxide impacts of various rulemakings since the interagency group first published estimates in 2010. Examples of these rulemakings include:

- The Joint EPA/Department of Transportation Rulemaking to establish Light-Duty Vehicle Greenhouse Gas Emission Standards and Corporate Average Fuel Economy Standards (2012-2016)
- Amendments to the National Emission Standards for Hazardous Air Pollutants and New Source Performance Standards (NSPS) for the Portland Cement Manufacturing Industry
- Regulatory Impact Results for the Reconsideration Proposal for National Emission Standards for Hazardous Air Pollutants for Industrial, Commercial, and Institutional Boilers and Process Heaters at Major Sources
- Proposed National Emission Standards for Hazardous Air Pollutants (NESHAP) for Mercury Emissions from Mercury Cell Chlor Alkali Plants
- Standards of Performance for New Stationary Sources and Emission Guidelines for Existing Sources: Commercial and Industrial Solid Waste Incineration Units Standards
- Final Mercury and Air Toxics Standards
- Joint EPA/Department of Transportation Rulemaking to establish Medium- and Heavy - Duty Vehicle Greenhouse Gas Emission Standards and Corporate Average Fuel Economy Standards
- Proposed Carbon Pollution Standard for Future Power Plants
- Joint EPA/Department of Transportation Rulemaking to establish 2017 and Later Model Year Light-Duty Vehicle Greenhouse Gas Emissions and Corporate Average Fuel Economy Standards

Limitations

The interagency group noted a number of limitations to the SC-CO₂ analysis, including the incomplete way in which the integrated assessment models capture catastrophic and non-catastrophic impacts, their incomplete treatment of adaptation and technological change, uncertainty in the extrapolation of damages to high temperatures, and assumptions regarding risk aversion. Additional details are discussed in the Technical Support Documents.³

Next Steps

In addition, the Office of Management and Budget (OMB) has issued a response to the public comments received through its solicitation for comments on the SC-CO₂ estimates. In this response, OMB announced plans to obtain expert, independent advice from the National Academies of Sciences, Engineering, and Medicine on how to approach future updates to the SC-CO₂ estimates. To help synthesize the technical information and input reflected in the

³ Both the 2010 SC-CO₂ TSD and the current TSD are available at: <https://www.whitehouse.gov/omb/oira/social-cost-of-carbon>.

comments, and to add additional rigor to the next update of the SC-CO₂, the interagency working group plans to seek independent expert advice on technical opportunities to improve the SC-CO₂ estimates from the Academies. The Academies' review will help to ensure that the SC-CO₂ estimates used by the federal government continue to reflect the best available science and methodologies.

After careful evaluation of the full range of comments, the interagency working group continues to recommend the use of the current SC-CO₂ estimates in regulatory impact analysis until further updates can be incorporated into the estimates.